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DIRECTORATE OF  
INTELLIGENCE

## Intelligence Report

# *The Situation in South Vietnam* (Weekly)

State Dept. review  
completed

USAID review  
completed

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM  
(16 January - 22 January 1967)

C O N T E N T S

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higher pork prices.

ANNEX: Weekly Retail Prices in Saigon (table)  
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# I. POLITICAL SITUATION

The long-rumored decision to dismiss Defense Minister Co, the last of the southern generals to retain a high government position, was made

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Co is currently on a state visit to Taiwan, having left on the same day unaware of his impending fate.

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## Defense Minister Co Finally Ousted

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1. The ruling generals finally agreed to strip General Nguyen Huu Co of his duties as defense minister and vice premier, but the timing came as a surprise. The move had been widely rumored for some time,

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2. General Co left on a state visit to Taiwan

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and his absence from Saigon probably explains the suddenness of his removal. Although there is no indication whether Co will be reassigned or brought to face corruption charges, his future may now rest on the manner in which he accepts his dismissal.

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[REDACTED]

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[REDACTED]

Co's  
widely-rumored propensity for financial irregulari-  
ties brands him as a political undesirable, even  
through corruption in high places has long been  
tolerated in South Vietnam. A more immediate justif-  
ication for removing him [REDACTED] however,  
involved reports that he was attempting to create a  
rift between Ky and Thieu to advance his own political  
ends.

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[REDACTED]

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[REDACTED]

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Debate on Draft Constitution Begins

7. The Constituent Assembly on 19 January began its plenary debate on the draft constitution, and has already approved the first five articles comprising the first chapter of the constitution. This chapter of the constitution entitled "Basic Provisions," covers the principle that sovereignty resides in the Vietnamese people, guarantees of the basic rights and equality of all citizens, and the principle of a clear and harmonious delineation of executive, legislative, and judicial responsibilities. The latter provision caused a long and rather disorderly semantic debate--indirectly relating to the possible supremacy of the legislature--which was finally resolved by some changes in wording. Debate also was started on articles of the second chapter of the constitution. The assembly apparently plans to hold two sessions daily until the Tet holiday recess beginning on 8 February.

8. In the few days preceding the assembly debate on the 19th, delegations from the assembly and the Directorate met in an attempt to iron out potential sources of friction in the draft constitution in an orderly manner. The assembly delegation reportedly agreed to the need for several changes proposed by the Directorate. Although the precise method of incorporating the Directorate's desired alterations into the existing draft is not clear, it appears that the deputies in the assembly delegation will try to sell the revisions to the assembly as a whole.

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## II. REVOLUTIONARY DEVELOPMENT

Plans for a broad national reconciliation program aimed at attracting Viet Cong ralliers continue to appear bogged down in apparent doubt among South Vietnamese officials as to the program's feasibility or necessity. The resettlement and care of refugees from allied Operation CEDAR FALLS, which may become the archetype of large-scale relocation of Viet Cong - controlled villages to government areas, encountered some initial problems, but is proceeding well. A new concept of implementing the Revolutionary Development effort--which integrates the available civil and military resources into a "task force" organization--has met with moderate success in Phong Dinh Province and may be used in other areas. Some 420 Viet Cong defectors returned to government control during the period 8-14 January, raising the total returnees for 1967 to 867.

### National Reconciliation

1. The proposed National Reconciliation program seems to have become ensnared in what is possibly a growing feeling among Vietnamese officials that it might not be feasible or necessary. There are indications that the GVN is neither physically capable nor psychologically prepared for as broad a program as was envisioned when the program was concurred in generally by the GVN at the Manila conference. Part of the GVN foot-dragging may be attributed to the increased confidence on the part of South Vietnam's leadership that the Viet Cong are being gradually defeated, and its reluctance therefore to jeopardize its security by being too generous to former enemies. As a corollary the concept of admitting Viet Cong defectors into the army or civil service at rank "equivalent" to that held while in the Viet Cong is

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likely to be sharply resisted at middle and lower ranking levels of the GVN military and civil bureaucracy.

2. Although the GVN appears unwilling to push ahead with a program of publicly offering comparable careers to middle or high-level Viet Cong ralliers, it appears willing to consider such offers on a strictly case by case basis.

#### Handling of Displaced Villagers in Operation CEDAR FALLS

3. A new departure, under way in the military Operation CEDAR FALLS in Binh Duong Province, is the principle of permanent relocation of sizable populations under Viet Cong control to government-held areas. Approximately two weeks prior to the initiation of Operation CEDAR FALLS in the Communist stronghold area known as the "Iron Triangle," planning for the handling of displaced persons was initiated by US military and civilian personnel. To preserve the security of the operation, South Vietnamese provincial authorities and US field representatives were not notified of the operation until after it was initiated on 8 January. This allowed the GVN authorities only 48 hours to amass provincial resources for the care and resettlement of several thousand persons. Plans called for all displaced villagers to be housed in and around Phu Cuong, the provincial capital of Binh Duong.

4. For the first four days of the operation, construction of shelters for the uprooted villagers was inadequate because of a larger than expected flow of refugees and because the type of construction material had to be changed. This lag in providing shelter appears to have been overcome. The transportation of villagers from their former homes around Ben Suc village to the Phu Cuong area was provided by US and ARVN troops, and purified water was made available to the refugees through the US military system. The provision of medical facilities and treatment has been particularly effective and encountered none of the minor problems which beset other aspects of the relocation effort.

5. US officials on the scene have been favorably impressed by the psychological and civic action operations carried on by various GVN agencies and military

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units. Registration and screening operations conducted by the police and refugee services have also been assessed as effective.

6. Initial indications are that the refugees, numbering approximately 5,000 as of 16 January, have been somewhat unhappy, but resigned to their situation. This is not too surprising since the "Iron Triangle" area, and the relatively prosperous village of Ben Suc, have for years been a Communist stronghold in which the local population has had genuine sympathy for the Viet Cong movement. If allowed, the people of this area would probably return to their homes and continue to support the Viet Cong.

#### The Task Force Concept of Revolutionary Development

7. The US Embassy reports that Minister of Revolutionary Development Thang has been favorably impressed by the Village Task Force concept of Revolutionary Development now being applied in Phong Dinh Province, and intends to employ similar techniques elsewhere. In a preliminary evaluation of the concept's effectiveness, the Embassy notes that certain weaknesses have affected the Phong Dinh project and that some caution must be exercised in expanding the concept to other provinces.

8. The importance of the Village Task Force concept lies in the integration of available civil and military resources under a single command, with these resources concentrated toward specific goals. The major deficiency in Phong Dinh has been inadequate Vietnamese leadership, a problem which may be partly remedied by the contemplated replacement of the task force commander. However, similar techniques have been tried elsewhere and have failed because of poor local leadership. The Embassy believes that the most important factors in expanding the use of the concept are that it be properly geared into the GVN administrative apparatus, applied in areas where there is competent district leadership, and that it avoid abrupt shifting of existing local resources including Revolutionary Development cadres.

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Viet Cong Defectors (Chieu Hoi)

9. During the period 8-14 January, a total of 420 persons returned to government control, according to official GVN statistics. The total number of returnees for 1967 now stands at 867. Statistics are still incomplete as there are nine provinces which have not reported for the current period. Included among the nine provinces is Binh Duong which has some 200 persons in the Chieu Hoi reception center awaiting further identification as either returnees (hoi chanh), refugees, or military prisoners. A breakdown of Chieu Hoi returnees for the current reporting period follows:

I Corps	61
II Corps	74
III Corps	112
IV Corps	<u>173</u>

420 (military: 269)

10. The Ministry of Information and Chieu Hoi formed a special joint Tet/Chieu Hoi task force on 10 January under the chairmanship of Colonel Pham Anh, undersecretary for Chieu Hoi. Following this action the ministry disseminated its campaign plans for Tet to regional and provincial chiefs of the Chieu Hoi service and the Vietnamese Information Service (VIS).

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### III. ECONOMIC SITUATION

Prices of both domestic and imported commodities continued to rise during the week ending 16 January. The price of the type of rice used by the working class reached a new high of 1,900 piasters per 100 kilograms, or more than double the price of a year ago. Pork prices, on the other hand, held steady. Free market gold and currency prices also were steady. According to the summary of an embassy rice study, the divergence between official production figures and the amount of rice arriving on the market stems from overstatement of production figures and greatly increased consumption. The case for large scale diversions of rice outside South Vietnam or to the Viet Cong has not been proven. The embassy also completed a study on pork which concludes that a substantial increase in the market price of pork would result in increased production.

#### Prices

1. During the week ending 16 January, retail prices in Saigon continued to rise for the third consecutive week. As measured by the USAID retail price index, prices were up three percent because of higher food prices. Non-food items declined slightly. The prices of all three varieties of rice soared to new highs as expectations of a smaller crop and fear of possible damage from military operations in the delta continued. In addition, both merchants and peasants may be engaged in hoarding. On 16 January, the price of the type of rice used by the working class was 1,900 piasters per 100 kilograms, or almost 10 percent above the 1966 high and more than double the price of a year ago. The price of nuoc mam (fish sauce), which has held fairly steady at 85 to 90 piasters a jar for the past several months, suddenly rose to 120 piasters a jar.

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It is reported that old stocks of this commodity are being depleted and, given the long lead time required for its production, consumers are anticipating shortages for several months. Although the prices of beef and fish rose because of lower arrivals, the price of pork held steady as a result of ample deliveries of hogs to Saigon. (A table of weekly retail prices in Saigon is included in the Annex).

2. Prices of imported commodities, which have been rising steadily since mid-December, rose again during the week under review. According to the USAID price index for selected US-financed imports, prices of imported commodities are now about 15 percent above their mid-December level. Imported food continued to edge up in the week ending 17 January as a result of the approach of Tet. Iron and steel products also increased again, but fertilizers, cement, newsprint and some chemicals were steady or lower.

#### Currency and Gold

3. In spite of the continuing increase in the prices of both domestic and imported commodities, free market gold and currency prices continue to hold steady. On 16 January the prices of dollars and MPC (scrip) were 175 and 115 piasters per dollar, respectively, each up one piaster from the previous week. Gold, on the other hand, fell one piaster to 226 piasters per dollar. Since the beginning of November, the prices of dollars and MPC (scrip) have fluctuated only slightly: dollars, between 170 and 175 piasters and MPC (scrip), between 112 and 115 piasters. Although fluctuations in the price of gold during this period have been somewhat wider--between 223 and 249 piasters--the price has been fairly steady during the past month at 224 to 227 piasters. (A graphic on monthly and weekly free market gold and currency prices is included in the Annex).

#### Appraisal of the Rice Situation

4. The summary and conclusions of a comprehensive rice study recently completed by the US Embassy indicate that the divergence between official production figures and the amount of rice

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arriving on the market stems from overstatement of production figures and greatly increased consumption. The case for large scale diversions of rice outside of South Vietnam or to the Viet Cong has not been proven. Factors contributing to the decline in production include movement of farmers into the cities and also into the armed forces, lack of price incentives for increasing production, loss of incentive to produce because of Viet Cong taxation, and lack of improvement in farming techniques.

5. The study concludes that the GVN has bungled the job of developing an effective rice policy. GVN regulation of the rice trade is generally excessive, serves little positive purpose, and restricts the flow of trade. Controls imposed by the GVN on the movement of rice shipments from the delta to Saigon have had little importance from the point of view of resource control. Indeed, it appears that these GVN controls serve mainly as a means of tax collection and a source of corruption.

6. The rice situation has deteriorated steadily during the past two years and the prospects for 1967 are still worse. Based on the assumption that the needs of the army, the central and eastern provinces, and Saigon will total 960,000 tons in 1967, that only 200,000 tons will come from the delta to Saigon (compared with 300,000 tons in 1966), and that 60,000 tons will be needed for reserve stocks, about 820,000 tons of rice will have to be imported in 1967. Imports of rice amounted to 470,000 tons in 1966 and 130,000 tons in 1965.

7. According to this study, it is doubtful that any combination of policies would restore self-sufficiency in rice until security is at least as complete as during 1956-60. Both self-sufficiency and an export surplus, however, are reasonable long-term goals. During the short run, it is suggested that the US seek to minimize needs for rice imports to the extent that this policy would not conflict with such other goals as economic and political stability. Among the many measures recommended to achieve this short-run goal are the following: introduction of population control measures, experimentation with higher paddy prices to encourage greater rice

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production, increased use of fertilizer to get higher yields, revision of the present convoy and movement control system, higher prices for imported rice in order to establish higher prices for domestic rice, elimination of GVN taxes on rice lands, and limitation of US rice imports in 1967 to 310,000 tons until the GVN has made substantial rice purchases with its own foreign exchange.

#### Proposal for Higher Pork Prices

8. A recently completed embassy study on pork concludes that a substantial increase in the market price of pork would result in increased production. The study suggests that a price of 9,000 to 10,000 piasters per 100 kilograms of live hog--compared with a present official price of 7,000 piasters--could be maintained by the use of stocks of frozen pork. This higher price would be only slightly above the current average of official and black market prices in Saigon and would not, therefore, result in a greatly increased price to the consumer. Moreover, because current price ceilings discriminate against delta producers in favor of those closer to Saigon and to the black market, delta producers are disadvantaged more than urban consumers are benefited by ceiling prices insofar as these are enforced. Removal of price ceilings and elimination of the black market would remove these inequities.

9. Liberalization of hog marketing involves some risks, however, because of time lags in the response of production to higher prices and because the mechanism for stabilizing the market by sales of frozen pork has yet to be tested. Moreover, higher pork prices would not result in unlimited production because of shortages of domestic feed supplies. In order to lessen these risks, the embassy recommends a revision in the US PL 480 agreement on corn to allow a significant portion of corn imports to be sold for a limited period to major producers of hogs at prices not much higher than present levels. These corn sales would ensure continued production by the major Saigon area producers whose profits, unlike those of delta producers, would probably decline with the removal of ceiling prices because they have been the main beneficiaries of the black market.

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ANNEXWEEKLY RETAIL PRICES IN SAIGON a/

	13 Jun 1966	19 Dec 1966	27 Dec 1966	3 Jan 1967	9 Jan 1967	16 Jan 1967
Index for All Items <u>b/</u>	<u>173</u>	<u>239</u>	<u>216</u>	<u>225</u>	<u>232</u>	<u>239</u>
Index for Food Items <u>b/</u>	<u>190</u>	<u>255</u>	<u>226</u>	<u>242</u>	<u>247 c/</u>	<u>257 c/</u>
Of Which:						
(In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,750	1,650	1,700	1,850	1,900
Pork Bellies (1 kg.)	90	120	100	130	130	130
Fish-Ca Tre (1 kg.)	130	170	130	150	150	160
Nuoc Mam (jar)	70	90	90	90	90	120
Index for Non-Food Items <u>b/</u>	<u>140</u>	<u>209</u>	<u>198</u>	<u>195</u>	<u>204 c/</u>	<u>204 c/</u>
Of Which:						
(In Piasters)						
Charcoal (60 kg.)	460	690	640	640	700	700
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	40	35	33	33	32
Electricity (kwh)	4.2	5.3	5.2	5.2	5.2	5.2

a. Data are from USAID sources.

b. Revised and expanded USAID indexes. (1 January 1965 = 100).

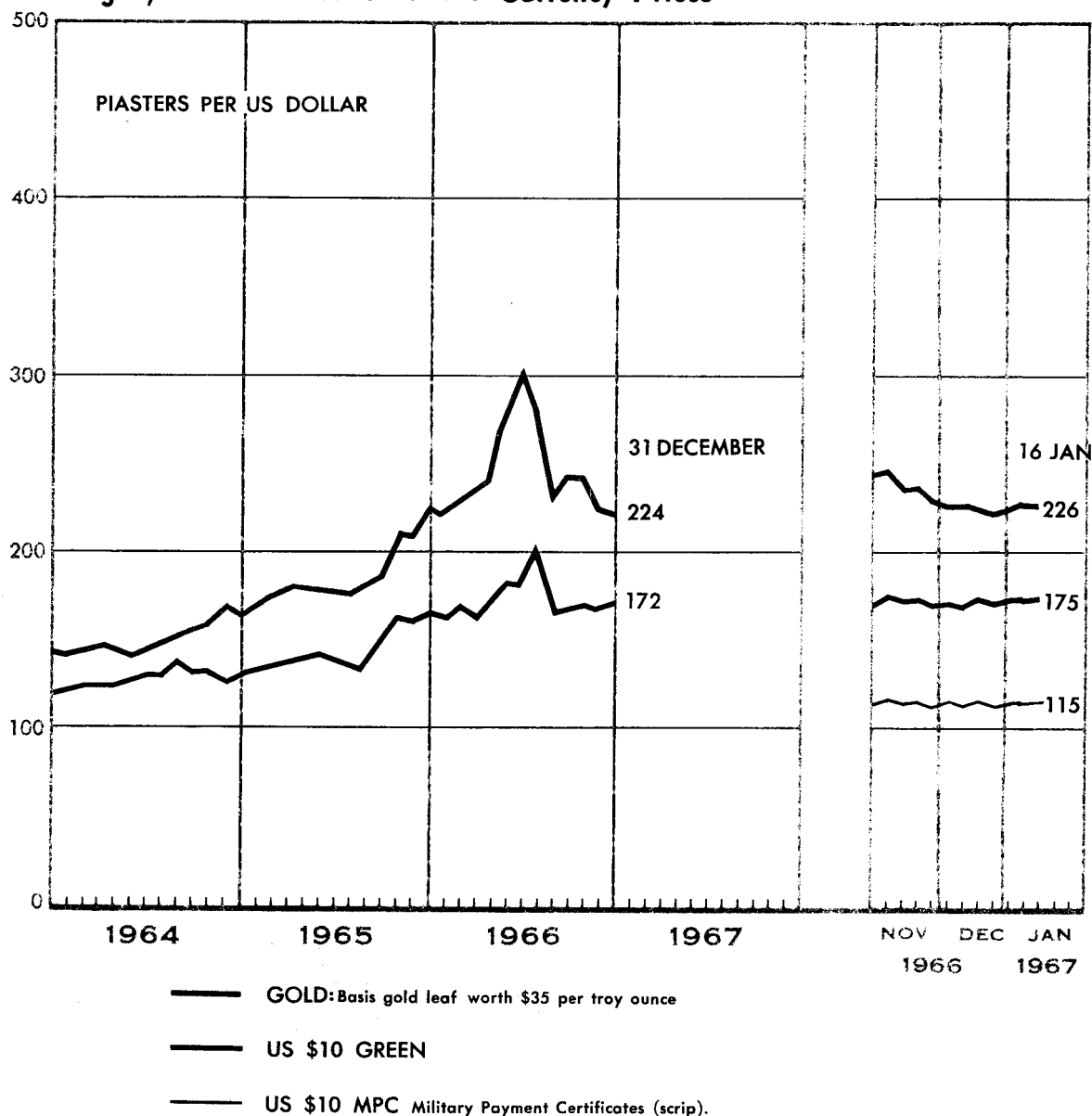
c. Preliminary.

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# Saigon, Free Market Gold and Currency Prices



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